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Issues of Improving Internal Control in Leasing Services

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Abstract: This article describes the economic significance and importance of internal control in the activities of lessors, the mechanism of its organization. Recommendations on the organization of effective internal control in the activities of lessors and the principles applied in it are reflected.

Keywords: leasing, internal control, risk management obligation, accuracy, consistency.

Introduction

During the operation of leasing companies, main task is to organize effective internal control in a timely manner, which allows maintaining the leased asset, optimizing cash flows, minimizing risks during the lease agreement and providing transparent information to the parties to the lease. An important aspect of increasing the efficiency of operations is the establishment of a system of constant control in leasing companies.

It is known that in order to assess the validity and effectiveness of management decisions made or adopted as part of the control process, the level of implementation of these decisions to determine the degree of deviation (deviation) from the established parameters of the actual results and regulatory guidelines is a system of monitoring, comparing, verifying and analyzing the activities of a managed object [1]. This leads to the idea that any management system must perform a control function. As a result, the rights, obligations and responsibilities of the subject exercising control in the enterprise (organization) arise, and the methods and techniques of control are determined.

Literature review

The issues of its application in internal control and leasing companies have been studied by a number of foreign economists.

Russian economist V.I. Bazhenova studied the content and structure of the internal control system. Methodological recommendations for the development of an effective system of internal control over leasing operations are given [2]. V.V. Burtsev tried to cover the system of internal financial control at the level of commercial enterprises [3].

S.D. Yushkova approached the system of internal control from the point of view of risks, as a mechanism for minimizing risks [4].

L.E. Romanova, O.A. Panova also studied the risk management relationship in their scientific work, and in the process considered internal control as one of the methods of risk management in leasing operations [5].

I.G. Chernoguzova cites internal control as one of the main activities in leasing companies in the Russian Federation. The main focus is on the stages, goals and implementation measures of an effective system of internal control of leasing operations [6]. In our previous research, we studied the importance of internal control in the implementation of leasing services in connection with stress tests in leasing companies [7]. In this article, we have focused on the study of the specifics of the organization of internal control in the activities of the lessor.

Based on the above considerations, it can be noted that internal control is an integral part of a modern management system, which is achieved by the owners at the lowest cost in the enterprise and achieves the set goal. An internal control system in an enterprise can be recognized as a financial or other type of control system that leads to goals such as effective and regulated activities by management, adherence to management tasks, safekeeping of assets, accuracy and completeness of documents. The system of internal control in the enterprise is used in business processes, from the planning of activities to the preparation of financial statements.

Main part

The main purpose of internal control in leasing companies is to provide transparent and objective information for owners and users to make sound economic and financial decisions, as well as to create an effective management system that will reduce the risk of leasing. Achieving the main goal by exercising internal control over leasing operations ensures that the following additional objectives are achieved (Figure 1).

The purpose of internal control of lessors in Uzbekistan is:

- effective detection and prevention of cash and other property transactions aimed at money laundering and terrorist financing;
- preventing lessors from being involved in criminal activities, intentional or unintentional;
- identification and assessment of risks in the field of lessor activities, as well as measures to reduce them;

- ensuring strict compliance by lessors with the requirements of the legislation on combating money laundering and territorial financing, as well as internal documents in the implementation of leasing activities.

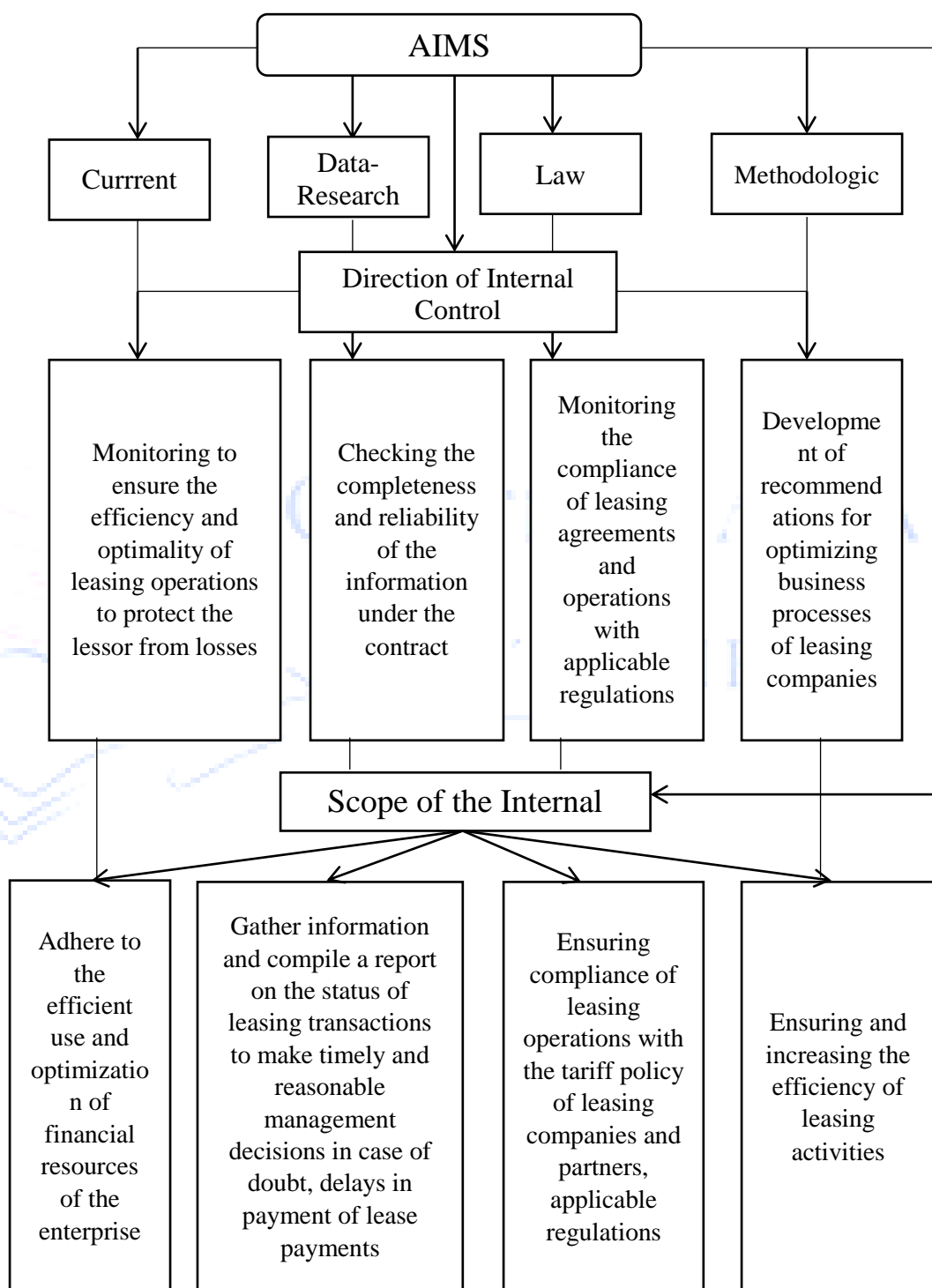


Figure 1. Classification of objectives for internal control of leasing operations

To achieve this goal, the following measures must first be taken (Figure 2):



Figure 2. Mechanism of internal control in the leasing company

The structural nature of internal control in a leasing company is reflected in five main elements:

- control environment;
- risk assessment process of the leasing company;
- information system (in particular, related to the preparation of financial statements);
- control measures;
- monitoring of control means.

The process of internal control in the Republican specialized leasing company "Qurilishmashlizing" operating in the national leasing market of the country consists of the following elements (Figure 3):

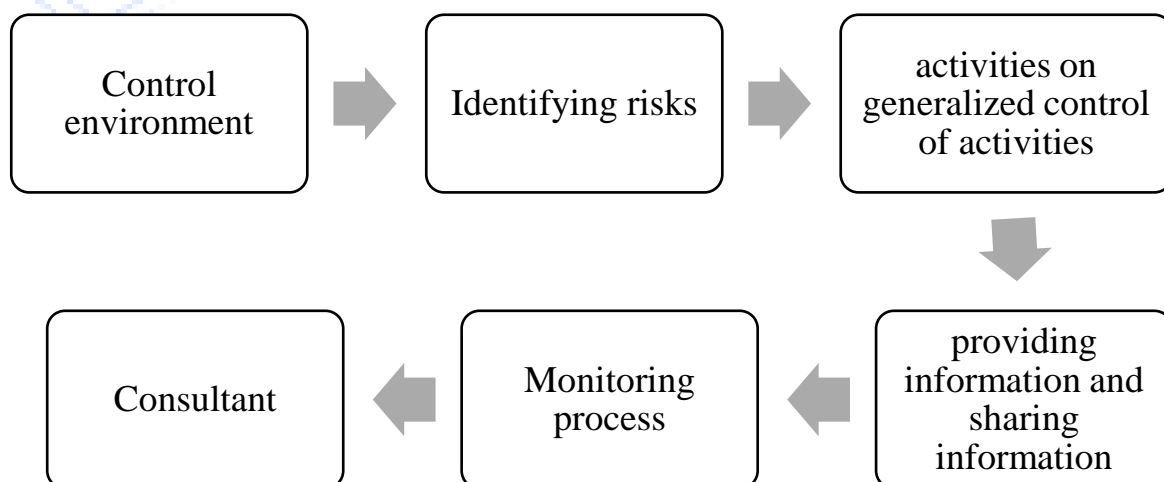


Figure 3. Components of internal control in leasing companies

Based on these elements, the company's internal control system should be developed based on the specifics of the leasing company (company activities and management structure). In the management system of leasing companies in the CIS countries, especially in the Russian Federation, in most cases there are CEO, CFO, chief accountant and accountant, legal adviser, internal control specialist and customer service managers. It is the internal control specialist who first monitors the leasing company's compliance with the regulations governing the legalization of proceeds from crime and the financing of terrorism [6]. The order of implementation of the control process in the internal control system of the company is determined in accordance with the guidelines and regulations governing the activities of existing departments in the leasing company (Table 1).

Table 1. Implementation of the control process in the internal control system of the leasing company [8]

№	Directions of control process	Executor (responsible)
1	Analysis and control of the market of leasing services	General Director, Chief Financial Officer (Manager)
2	Analysis of risks arising from the implementation of the lease agreement	General Director, Chief Financial Officer (Manager), Internal Control Specialist
3	Analysis and control of the financial condition of the participants of the leasing relationship	Financial Director (manager), Customer Service Manager
4	Controlling the legality of the contract	Lawyer-consultant, specialist in internal control
5	Checking the accuracy and completeness of the leasing transaction documentation	Customer Manager, Accountant
6	Control of reflection in the accounting and reporting of leasing transactions	Chief Accountant
7	Monitoring the status of lease payments	Accountant, Chief Financial Officer
8	Assess the current condition and integrity of the leased asset	Internal control specialist
9	Analysis of leasing operations	Financial director (manager)
10	Analysis of the financial condition of the leasing company	Financial director (manager), chief accountant

The tasks of internal control of lessors in our country are as follows [9]:

- implementation of measures to properly inspect customers in accordance with the legislation;
- beneficiary owners (as a result of which the natural person who owns the property or actually controls the client or by the client, a legal entity carrying out operations related to cash or other property in his interests), as well as funds used in leasing activities and identification and study of the sources of origin of other property sources;
- detection of suspicious transactions based on certain criteria;
- timely submission to the department of information (documents) on suspicious transactions identified and to be reported during the internal control;

- suspend operations that must be reported in special cases, within three working days from the date of the operation, and notify the department of such operation on the day of suspension;
- ensuring the confidentiality of information related to the fight against money laundering and terrorist financing;
- ensuring the storage of information on leasing activities, as well as identification information and materials for the proper inspection of customers for the period specified by law;
- promptly and regularly provide lessor management with reliable information and materials needed to make appropriate decisions;
- creation of a database on the implementation or attempt to carry out suspicious transactions, persons related to customers (managers, founders) who carried out suspicious transactions, as well as the exchange of such information with government agencies and other organizations in accordance with the law;
- identification of persons involved in the financing of terrorist activities from the customer base on the basis of surveys;
- take appropriate measures to identify, assess and reduce risks in the lessor's activities.

Conclusion

Based on the above considerations, we can say that the effectiveness of control in leasing companies will be further enhanced if the implementation of internal control is based on the following principles:

- the principle of continuity - the constant and proper implementation of internal control systems allows the company to identify risks in a timely manner and warn of their occurrence in the future;
- the principle of accountability of all participants in the system of internal control - means that the quality of performance of the supervisory functions of each participant in the leasing relationship is controlled by other participants in the system of internal control;
- the principle of distribution of liabilities - the company tries not to duplicate control functions, and these functions should be distributed among employees so that the functions of storage of assets and their inventory, transaction accounting, approval of transactions related to certain assets are not repeated by one and the same person;
- the principle of proper approval and approval of leasing transactions - the company seeks to comply with the procedure established by law for the approval of all financial and economic transactions by authorized persons within their powers;
- the principle of obligation - internal control means the obligation of all entities operating in the company to properly perform the supervisory functions;
- the principle of accuracy - the implementation of internal control based on a clear interaction of all divisions of the company;
- the principle of continuous development and improvement - the company strives to create conditions for a system of internal control that can be simplified, taking into account the need to solve new tasks, expand and improve the system;

- the principle of timely notification of deviations - the company has established the maximum possible delivery of information to persons authorized to make decisions on the elimination of deviations as soon as possible.

In addition, the internal control system should serve as a key issue in the leasing company, i.e. the timely settlement of receivables. The reason is that the subsequent activities of the leasing company are directly related to the flow of payments under lease agreements, and late payments will eventually lead to a shortage of funds. In order to prevent such a situation, it is necessary to constantly regulate the relationship between the parties to the lease agreement.

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10. Section 1, Paragraph 3, “Rules for Internal Control in Combating Money Laundering and Terrorist Financing in Leasing Services Organizations”.